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BOŠKO MIJATOVIĆ
**FARMERS' PENSION
INSURANCE**

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FARMERS' PENSION INSURANCE

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ABOUT FARMERS' PENSION INSURANCE¹

IS FARMERS' PENSION INSURANCE NECESSARY?

1. When debating on farmers' pension insurance, two fundamental issues are inevitably raised:

1. whether the mandatory pension insurance of farmers (and their household members) is required and
2. if so, whether the farmers (and their household members) should be included in the general mandatory pension insurance or should a special insurance plan be organized for this category of the insured?

Ad 1. There is a widespread opinion that the farmers' mandatory pension insurance is not necessary and it is considerably present among the farmers, especially among some (wealthier) categories of farmers, but the general public as well. This opinion is based on a number of reasons:

- a) farmers can work on their farms until they are very old, thus providing for their basic needs,
- b) farmers can (1) rent their property to someone else and live off the rental proceeds or (2) sell and obtain income from the sale and the like. Reasons (1) and (2) essentially indicate that the agricultural property can be viewed as any other serious saving plan for old age (bank savings, securities, real estate) so that the pension is unnecessary for the average farmers,
- c) farmers have descendants at the farm, and by working they will provide a safe old age for the older household, as the case was in the past.

The above mentioned reasons in favor of the absence of farmers' mandatory insurance possess certain credibility, but closer examination raises some doubts. Namely, work, especially physical one, is very difficult for old people, so it's not humanly to force old people to work in order to ensure a minimum standard of living. Also, labor in old age is

¹ I am grateful to Gordana Matković, for the useful suggestions. Also, thanks to Milica Danilović, Raša Gojković, Ivan Mimić and Željko Simić for useful information.

certainly inefficient, so the question is can the elderly, in spite of all their efforts, provide for at least basic existence, or will they otherwise fall into great misery.

Secondly, the reason b) may apply to a large number of agricultural land owners, but there are farmers for whom this „investment“ plan is not sufficient. In fact, for farmers with small properties it is possible that property income does not reach the level required for a peaceful old age. While, during the working life, the said property could provide sufficient income by combining return on capital, owner's labor and entrepreneurship, the mere return on capital (either through the rental of the property or through its sale and purchase of annuity policies) can easily be insufficient due to the modest value of the property.

Besides, the property can be wasted over time, either owing to the fall of its value due to the deep economic reasons, or because of poor business policy of the owners (too much borrowing, etc.), or the owner could have squandered it. Anyway, we see that even the possession of considerable property can not guarantee secure old age, due to the risk that the owner can run out of land.

Even if we assume that the land owner will be able to make a sufficient income for old age through the implementation of an investment strategy, the question is what to do with other farmers' household members – should they remain dependant on the head of the household or should they be provided with an independent income.

„Investment“ reason is particularly weak in Serbia, where the value of the property is usually small – often only a few thousand Euros, which is the recent selling price for many properties, if they manage to be sold at all – so it can not provide sufficient income for basic survival in the long-term period.

At the end, the reason under c) is no longer credible, because the demographic transition, along with rural-urban migration, devastated population in many agricultural areas in Serbia, so most of households remained without members of the younger generation, and many of them remained exclusively elderly. Therefore, the old mechanisms of intergenerational solidarity disappear and cease to be the backbone of the social security of the members of older generations.

It is possible that the stated reasons for the lack of mandatory insurance are applicable to a number of wealthier farmers in the developed countries. But even there, and in particular in Serbia, there is a considerable number of farmers who would not be able to provide the needed income for old age by themselves, without the help from the pension system. Mandatory pension systems exist precisely for such individuals, and not for those who provide a considerable income for their old age by themselves.

Ad 2. There are two important reasons why the farmers should be included in the general mandatory pension insurance. The first is the equality of all before the law, which is the highest ranking principle achieved, if equal regulations apply to all citizens. The other is the administrative and cost efficiency, as it is certainly more complicated and expensive to have two programs instead of one.

However, there are some equally important reasons that speak in favor of special regulation and organization of farmers' pension insurance. The first is of administrative nature and concerns technical complications regarding determining the basis for farmers' pension contributions and difficulties in their collection. In fact, the entire income of many farmers or a part of it is hidden from tax and other state bodies, due to the payment in cash or personal consumption in kind, making it difficult or even impossible to establish the real income that should be taxed by the pension contributions. The tax administrations of many countries have been coping with this issue for a long time and they have resolved it with partial success. Therefore, there are various innovative and less innovative techniques of farmer taxation at place and they lead to the distinction between taxes on income from agriculture and taxes on income from other activities. This problem occurs with pension contributions as well, and different countries deal with it differently. Some countries create a special pension system for farmers.

Another specificity of agriculture is that many retired farmers can continue to work on their farms, although to a lesser extent than before, and thus contribute to the satisfaction of a part of their needs. Therefore, it is possible to regulate farmers' insurance in such a way that they pay less contribution than others and receive lower pensions than others.

The third specificity of agriculture is that several close relatives often work in the economic unit called the farm, so the question is how the pension system should react to that fact: whether only one member should be insured (the owner or head of household) or all members should be included? How should their contributions be calculated and what should be the ratio between their pensions? Similarly, whether the workers employed at the farm should be insured through the general program or through the agricultural insurance?

Let's look briefly at some foreign solutions.

FARMERS' INSURANCE IN THE EUROPEAN UNION²

2. There are various different solutions to the farmers' pensions in the European Union, and they rely on national traditions. These differences exist due to the fact that there is no harmonization of pension legislation at the EU level, i.e. there are no pension related regulations at Brussels level.

In many countries farmers (individual households) are involved in the general pension insurance plans along with other categories of the insured, and under the same conditions. This means that they are part of the same state funds as the others, and they pay the same contributions and qualify for the same pensions as others. Such a system is suitable for small number of farmers in the developed countries, usually under 5% of the total work force, on the one hand, and for high involvement of farmers in the tax and economic system as a whole, on the other. There is a social pension for all citizens in **Denmark**, funded from the budget, and farmers are also involved in it.

In many other countries there are particularities in farmers' pension insurance, which are going to be stated hereunder.

In **Hungary** and **Romania**, independent farmers are not involved in the mandatory pension insurance, but are insured on voluntary basis.

In the **Great Britain**, farmers are covered by mandatory insurance, but the self-employed (self-employed activities and farmers) can cease

² Based on Bill Birmingham - Rural Pensions in European States, EU-China Social Security Co-operation Project, s.a.

with this insurance if their income is below a certain amount. This insurance suspension is not later included in the pensionable service.

In many countries there is a separate mandatory pension insurance of farmers, subject to the individual rules and funding.

In **Austria**, farmers' pension insurance involves the proprietors and members of his/her family and it is mandatory. Contribution rate is 15% of the property value, based on which it can be insured. Pension amount is prescribed by the general rules. One third of the old-age, disability and family pensions is funded by the pension contributions, and two thirds by the state funds.

In **Germany**, pension insurance is also mandatory for the owners and members of his/her family (except for persons with short-term employment). Contributions are determined based on the value of the property. The contribution and pension, in average, amount to less than half of those in the general insurance.

In **Spain**, agricultural insurance covers those farmers, including the members of their family, whose taxable income is defined. Pensions are financed from contributions, and pension rights are substantially similar to the rights in the general system.

In **Finland**, farmers are involved in two pension programs:

- national pension insurance, which covers all employees, including farmers,
- a special program for farmers, according to the law on farmers' pensions, who have at least 5 ha of cultivable land and annual income of 3,000 Euros.

Pension contributions are calculated according to the calculative earnings, which depends on the size of the property, type of activities carried out on it and productivity (or number of deers).

If the farmer leaves the agriculture, then he/she has the right to the early pension benefit. This encourages the rejuvenation of entrepreneurs in agriculture, which improves the profitability and size of remaining farms.

Old age pensions are financed 20% from contributions, 70% from the state funds and 10% from other sources.

The mandatory farmers' pension insurance functions as a private pension fund, but the state representatives and the insured themselves are involved in the work of its administration.

In **France**, mandatory special retirement pension includes both farmers and members of the household engaged in agriculture, as well as the employed agricultural workers. The additional requirement is that the value of agricultural property exceeds certain threshold.

Pension contribution consists of two elements: (1) a fixed part that is equal for all and is determined at the national level and (2) an additional percentage, which is determined regionally (by departments).

The pension consists of two parts: the first one, which depends on age and years of contribution payments, and the second, which is proportional to the number of points calculated on the basis of contributions paid.

In **Greece**, pension insurance is mandatory for self-employed farmers, agricultural workers, cattle-breeders, beekeepers, fishermen and voluntary members of religious groups that are engaged in agriculture. Other rural workers with low income participate in this pension program, while rural workers with higher income participate in the insurance of private businesses. Household members are insured, although without payment of pension contributions.

Pensions are financed from the contributions of the insured and the state funds, which cover the deficit.

In **Italy**, farmers' pension insurance provides rights equal to those of the general pension insurance.

Pension contribution of farmers depends on several factors: the size of the land, the type of land (less is paid for the mountain one it), the number of work days on the land (more days, higher contribution) and the number of years of participation in insurance (less number of years, smaller contribution).

Pension plan also distinguishes between the following categories:

- tenant farmers and share croppers,
- direct farm workers on the property (i.e. property owners who predominantly work as farmers) and

- entrepreneurs working on the property as their dominant occupation for 2 / 3 of their working hours (on the mountains 50 %).

Luxembourg farmers' pension fund provides rights equal to those of the general insurance.

Amount (percentage) of farmers' pension contributions is equal to that in general insurance. The basis for contribution is calculated according to the size of the property and the type of activity performed on the property (according to the last year's plant and animal production). There is a minimal, equal for all, contribution for small farms.

In **Poland**, there is a separate fund for farmers, land owners and members of the households. Participation is mandatory here as well, but for smaller farms (less than 1 ha) it is voluntary.

The employed and seasonal workers in agriculture have mandatory general pension insurance. Farm owners who are engaged in non-agricultural activities (tourism, repair) may remain in farmers' insurance if they have participated at least three years in it.

Farmers' pension insurance provides rights equal to those of the general insurance.

Contribution depends on the previous semi annual income, with set maximum size. The pension consists of two parts: (1) depending on the contributions paid and (2) the additional 25% of basic pension amount. 6% of mandatory farmers' insurance is financed from pension contributions and 94% from the state funds.

In the European Union farmers who have low pension are entitled to social welfare.

BASIC LEGAL SOLUTIONS

3. In this section we will briefly present and analyze important current legislation in the farmers' pension insurance field. It comprises two laws: the Pension and Disability Insurance Law and the Law on Social Insurance Contributions.

GENERAL FEATURES

4. Farmers' pension insurance is relatively recent in Serbia – it was introduced in 1979, as voluntary. Until then, farmers were not pension insured in any way, but relied, in the old age, on intergenerational family solidarity, i.e. the work of their children, their own and, possibly, that of close relatives. Three years later, in 1982, mandatory insurance of associated farmers was introduced, i.e. of those who have worked closely with government and social sector in the agriculture, under the so-called associations. But those beginnings of insurance did not lead to the inclusion of larger number of farmers – on the contrary.

From 1986 till the present time, pension insurance for farmers is mandatory, which means that, according to the law, they are obliged to participate in it and pay pension contributions, as well as all other pension insured persons (employees and the self employed), under the threat of sanctions and coercive collection. However, as we shall see later, the nominal obligation does not exist in the practical life.

5. Voluntary pension insurance in private capital funds is certainly available for farmers as well, but they practically do not use it.

Generally speaking, mandatory farmers' insurance is an integral part of general mandatory pension insurance in Serbia. It is regulated by a general, uniform law on pension insurance, and most of the solutions are the same both for farmers and the other insured persons. Only a few are actually different, trying to take into account some specifics of the pension insurance of farmers.

Thus the law states that those who are required to be insured are the employees, members of private businesses and farmers. The latter are defined as „individuals who are, by law, considered to be engaged in agriculture (farmers, members of farmers' households and members of mixed households), unless: the insured employees, the self-employed

insurance holders, pension beneficiaries and persons in school“. In other words, the law considers farmers to be the members of the agricultural and mixed households, not insured on other grounds (as employees or the self-employed) or in school or already receiving pension.

The above mentioned definition is extensive and may include among farmers those members of the agricultural households who are not farmers: for example, those seeking work outside agriculture or incapable for work and inactive, and the like. The question is also how to treat those who are involved in agriculture, but as entrepreneurs, on the leased property and with wage-labor force: as farmers or as self-employed, which it is not clear from the legal definition.

Since insurance is mandatory, the law requires that an individual becomes pension contributor on the initiation date (provided that he/she is at least 15 years old), and ceases to be so on the day of termination of agricultural activity³. According to the current solutions, only one member of the household is obliged to be insured, while for others the insurance is voluntary.

However, there is a provision, related only to farmers, on so called stand-by mode of service, which says that the farmer's insurance can be exceptionally put on stand-by mode for five years the most, during the objective risk insurance period (natural disasters, illness and maternity leave), provided that those can not be consecutive five years. In practical terms, this provision means that each insured farmer does not have to pay pension contributions for five years during his/her working life, but those years will not be included in the pensionable service. This provision has been legalized in 2003, and it was part of the former attempts to put farmers' pension insurance on its feet. In fact, by then, many farmers have accumulated considerable pension debts due to irregular payment of contributions, and because of the reluctance of the state to implement forced collection of the debts, one of the ways to reduce them was this – granting stand-by mode of service, thus automatically deleting the pension debt for these five years.

³ This solution creates great formal difficulties, since it is hard to expect the farmer to stop with agricultural production at the time of receiving the first pension. Moreover, it is considered that a formal requirement for obtaining a pension would be for the farmer to transfer property to someone else (the successor, etc.) and thus mark the termination of his activity, so it is sometimes required, but normally this requirement is ignored in practice.

BASIC RIGHTS

6. The farmer, as well as other insured, has the right to old age, disability and family pension, funeral expenses and allowance for bodily injury (in case of accident at work or occupational disease).

A farmer will be entitled to an old age (full) pension 1) upon turning 65 (male) or 60 (women) and with at least 15 years of pensionable service, or 2) upon terminating 40 (men) or 35 (women) years of pensionable service and turning at least 53 years old;

The individuals with disability obtain the right to a disability pension when total loss of working capacity occurs due to injury, occupational illness, injury or illness outside of work, and changes can not be eliminated by medical treatment or rehabilitation.

The right to family pension, after the death of a pensioner and pension policyholder with at least five years of insurance, is obtained by the widow or widower, if in old age, children when younger and if they are in a schooling program and parents if they were supported by the deceased and if they are in old age.

The allowance for bodily injury is obtained for the injury incurred at work and due to occupational diseases. It may be less serious than invalidity, but it is assumed that it is necessary to provide compensation to those whose work capacity is reduced, due to the injury or illness associated with their work. (Invalidity does not need to be related to the work place.)

CONTRIBUTIONS

7. Law on contributions stipulates that the insured from the agricultural pension fund pay contributions on the basis on which personal income tax is paid, for income from agricultural activities. However, as this tax has not been charged for six years, the law provides for back-up option and prescribes that in this situation pension contributions should be calculated according to the lowest monthly basis, which is 35% of the average monthly salary in the Republic, for the last quarter of the previous year.

Thus we have an unusual solution: that all the insured farmers (should) pay equal contribution and minimal one as well. Such a solution obvi-

ously denies the principle that everyone pays the contribution based on the income, because the differences in farmers' income certainly exist, and pursuant to the legal solution they are all required to pay equal contribution. Also, a minimal contribution is selected, which means that the farmers' pensions, due to the manner of pension calculation based on the amount of paid contributions, will inevitably be low. Thus a whole class is condemned to low pensions from mandatory insurance.

However, the said solution has some sense. Since the tax on income from agriculture has not been calculated or charged in Serbia for years, it is really not clear how the Tax Administration or Pension fund could collect from farmers the contribution based on their income, because the tax base is lacking. This shortcoming is further reinforced by the fact that the calculation of cadastral income for income tax was also quite outdated, since it was evaluated decades ago at the time of other agricultural technologies and has never been re-calculated. Such a tax basis did not have much to do with the actual situation and was, for taxes, poor substitute for identification of real income.

When the tax basis no longer exists and when it is not possible to determine the real income of individual farm households by other good techniques, it is necessary to choose a „handy“ solution. And so, in the absence of a better one, this solution with the universal, equal – for – all base for pension contribution was chosen. Such solution, regardless of income or revenue, apparently indicates the kind of technical and conceptual problems the farmers' pension insurance is facing.

8. Similarly, the decision on payment of contributions against the minimum base has certain sense. That's because large number of farmers is not thrilled with the obligation to pay pension contributions while the state has neither power nor the will to charge them by forced collection. Therefore, it is natural to establish a low base for mandatory contributions, in the hope that it will be acceptable to a larger number of the insured and that they will pay contributions. A higher base would certainly reduce the number of payers.

9. Another provision of relevance for the insured farmers is the following one: if the insured has not paid all due contributions, he/she will have limited pension rights, and the Fund will suspend 1/3 of the established monthly pension amount until the unpaid due contributions are

settled. In this way, farmers have been given incentives in order for them to acquire pension, despite the existence of the debt for unpaid contributions, provided that the debt is later settled out of retirement. This benefit was introduced so the insured farmers do not lose their right to a pension due to the debts related to contributions.

PENSION AMOUNT

10. Old age pensions are calculated in the same manner as other pensions: personal points are calculated per year, realized from the contributions during the pensionable service, and they are multiplied by the value of a general point. Similarly, the pensionable service is added to disability pensions, in order to increase the pensions of those who have short pensionable service, and in the family ones adjustments are made according to the number of household members, which is in most cases reduced.

However, the mechanism for calculating old age and disability pensions is virtually redundant for the farmers, since the calculations indicate that on their paid minimal base they would receive pension that is lower than the minimal one, and therefore the minimal pension is applied. In fact, only with 40 years of pensionable service the insured farmer would be entitled to old-age pension according to the said calculation, which would be equal to the minimal pension. The reason is evident: farmers pay pension contributions against the minimal base, which is usually very low, so the calculated old age pension is very low as well, especially for small number of years of service.

11. So, for agricultural pensioners, and for the others as well, the minimal („lowest“) pension is established, in relation to which the calculated one can not be lower. However, an unexpected difference occurs between the farmers on one side and the employees and the self-employed on the other: their (farmers') minimal pension is lower than in the other two categories of pensioners. While in 2009 minimal pension of the employees and the self-employed amounted to 11,088 RSD, for farmers it was prescribed to be 8,385 RSD. This difference occurred in 2005, when the minimal pension of the two mentioned categories was increased from 20 to 25% of average wage from the previous year, while the old one was left for farmers.

It is difficult to find justification for this difference in the minimal wages. When the rules for retirement and method of pension calculation are equal, there is no reason for the minimal pension to be different. So, namely, two different categories of the insured obtain different minimal pensions although they are equal in everything else – equal contribution payments, equal pensionable service, equal years of life.

The author of these lines sees two possible political explanations:

- first, farmers are not organized into unions and associations and their interests are therefore easy to ignore while the other two, far better organized categories of the insured and pensioners, strongly push their demands. Related to this, farmers spared a lot this way, because virtually all retired farmers receive the minimal pension, therefore the reductions cause substantial savings (about 7 billion RSD per year);
- second, the legislator based its decision on average farmers' small number of years of pensionable service (due to irregular payments) compared to the other two categories of pensioners, so they were „punished“ with lower minimal pension.

REGISTER RECORDS

12. In order for the pension system to function well, it requires considerable amount of data. Therefore, the law stipulates the creation of so-called Register records, which will include the required data. It is managed by the Pension and Disability Insurance Fund, with support of other stakeholders and state institutions.

Register records include data on three groups of stakeholders:

1. *about the insured*: personal data, insurance base and inception date, pensionable service, wages and compensations, paid contributions, contribution payer, etc.
2. *about the pensioners*: personal data, type of pension and legal basis, the dates of attainment, inception of payment and pension termination, base and type of disability, relationship and personal data for family pension, etc. and
3. about the contribution payers for pension and disability insurance.

Data is entered in the register records based on the application, both for inception of the insurance and for any later updates. Different stakeholders are required to submit applications, depending on the category the insured belongs to: from the employer to the employment service.

With farmers there was a serious question as to whom to entrust the application job. One possibility was self-application, which implies introduction of the obligation for the farmers to submit information about themselves and their income, on their own. However, probably justified skepticism prevailed in relation to reliability of such records and the possibility of subsequent control of hundreds of thousands of agricultural households.

13. For farmers, the following state institutions are obliged to submit the application, according to the work allocation:

- *Municipal administration*, in the part related to the application and cancellation of insurance and related personal changes and
- *Tax Administration*, in the part on the contribution base, their payments by the insured and related financial data.

It is interesting to look at the genesis of the decisions on the municipal administration bodies to be the source of basic and important data in the register records. In the mid 1980s, at the time of preparation of farmers' pension insurance, a large activity related to autonomous registration of farmers was organized. They were given an important incentive in the form of free years of service for the pensionable period, a maximum of ten years, depending on the age. About 450 thousand farmers applied for pension insurance, out of estimated 850 thousand potential policyholders. Since, according to these estimates, only half of the population applied, additional activity was initiated, carried out by the local authorities, primarily local community offices. That brought another 200 thousand policyholders, but also proved, it seemed, that there is considerable potential in local authorities for collecting data required for farmers' pension insurance.

Nevertheless, the system for self-application of the policyholders had been used until 1992, i.e. they were required to report by themselves any relevant change in their status of the insurance policy holders. But, the deficiencies of this solution manifested very quickly, that is the

lack of interest of the farmers to meet these formal obligations, and the legislator sought other ways of updating register records. And so, in the absence of alternative solutions, it relied on local government, i.e. on municipal administration as a body that will supply the necessary information to the PDI Fund, for update of the Register records.

Unfortunately, the municipal bodies do not pursue this statutory role in the pension insurance of the farmers and do not submit the required information to the PDI Fund. Therefore, the Fund is left completely without legally required update of the data, i.e. without proper Register records, with large and practically unsolvable problems.

Another type of data in the Register records – the financial ones – is stored at the Tax Administration and, as far as we know, there are no major difficulties there.

FINANCING

14. Pension insurance in Serbia is financed by a combination of income from mandatory contributions and budget transfers. This also applies to farmers' pensions. The role of other sources is negligible.

The pension contributions and their payment obligation were discussed previously. The Republic budget provides a financial contribution based on two legal grounds. The first one is budget commitment to fund the difference between the minimal pension set by law and the amount of pension obtained by the application of general rules of pension calculation. In other words, when pensioners receive minimal pensions instead of their lower pensions, the difference is required to be covered by the budget of the Republic of Serbia. This difference is standard for agricultural pensions.

The second ground for participation of the national budget in financing of farmer pensions is general state guarantee for the functioning of the pension system, which reads: „The Republic is the guarantor for the fund obligations to exercise rights under the mandatory pension and disability insurance (state guarantee)“. Thus, the Republic of Serbia is obliged to cover the shortage in the funding of pension system, when its own revenues are not sufficient. This commitment is associated with the right of the Republic to conduct contribution policy, and to pre-

scribe lower contributions than required in case of balanced revenues and expenditures of the pension system, which actually happened in the last decade.

ORGANIZATION

15. Farmers' pension insurance was organized, since its creation, as a separate pension fund, independent from the other two (of the employees and the self-employed). It had its Management board and directors, its account and financial independence. The Self – employed Fund performed, for compensation, administrative duties for the Farmers' Pension Insurance Fund.

However, from January 1st 2008, an administratively unique Pension and Disability Insurance Fund functions, and it includes the three previously existing funds. During the three year transitional period, there were three financial sub-accounts, but from 1 January 2011, this last feature of autonomy will disappear and the Fund will use a single account. Still, it will be possible to implement analytical monitoring of financial and other flows in farmers' pension insurance.

FUNCTIONING AND PROBLEMS

16. In this section, we will try to present the main features of the existing pension insurance of farmers and causes of such state of affairs. We shall firstly give a few demographic data from the 2002 Census for Serbia without Kosovo and Metohija:

Table 1. Agricultural households and population, 2002, in 000

Number of agricultural households	778,9
Living on farms, total	2536,4
• Individual farmers	454,7
• Active outside the households	705,1
• With their own income (pension etc.)	526,2
• Dependant on someone else's support	845,2
Total agricultural population	817,1
• Active	529,2
• Individual farmers	487,7
• Dependant on someone else's support	287,8

Source: Census 2002.

Previous data can be taken for the analysis of farmers' pension insurance only as a rough estimate, as a framework, because their definitions are not identical with the definitions in the law on pension insurance. We should not forget the fact that this law defines farmers as all those over the age of 15 who are members of the agricultural and mixed households, and are not included in the pension insurance of employees or self-employed, are not retired and are not at school, with only one member with compulsory insurance.

THE INSURED

17. Since the pension insurance in Serbia is based on pay-as-you-go system, i.e. the funding of current expenditure on pensions is based on the current income from pension contributions, the ratio of the number of the insured to the number of pensioners is very important for the financial health of the pension system (and also of the farmers' pension fund, while there was one). The lower the ratio, the more difficult it is to finance pensions. Thus the number of the insured in the pension system, as well as in its subsystems, plays a significant, almost decisive role.

FUNCTIONING AND PROBLEMS

Table 2. Number of insured farmers

	Total	Farmers	Members of agricultural households	Members of mixed households
1987	641503			
1995	623403			
2000	461904			
31.12.2006.	332536	66141	160370	106025
31.12.2007.	314928	62891	152629	99408
March 2009.	233385			
April 2009.	229118			

Source: Records of the PDI Fund in Serbia

From this table we see that the number of insured farmers is quickly decreasing – by as much as two-thirds since the creation of farmers' pension insurance until today, i.e. in a just bit more than two decades. This tendency gives a negative image of pension insurance of farmers: while the number of pensioners is growing (more below), the number of the insured is decreasing. This has now reached an extremely unfavorable ratio of 1:1, since the number of retired farmers in late 2009 was 224.9 thousand, and the number of insured only 233.4 thousand. With such ratio, where one insured person is to provide pension to one pensioner, the pension fund must be in great financial crisis.

However, this very low number of the insured according to the Record registers was significantly higher than the actual number of the insured and is a consequence of the overestimation or incorrectness of the Register records. The records show many farmers as the insured although they are not so any more, due to insufficient updating of the Register.

18. The exact number of actual, active farmers insured is not known, because of the weaknesses in the records, which will be more discussed further on. Rough estimate of contribution revenues gives disappointing results. Namely, if the total annual contribution revenues are divided by the amount of (equal for all) annual commitments against the lowest base, the following numbers are arrived at:

Table 3. Number of „full“ insured with contribution paid

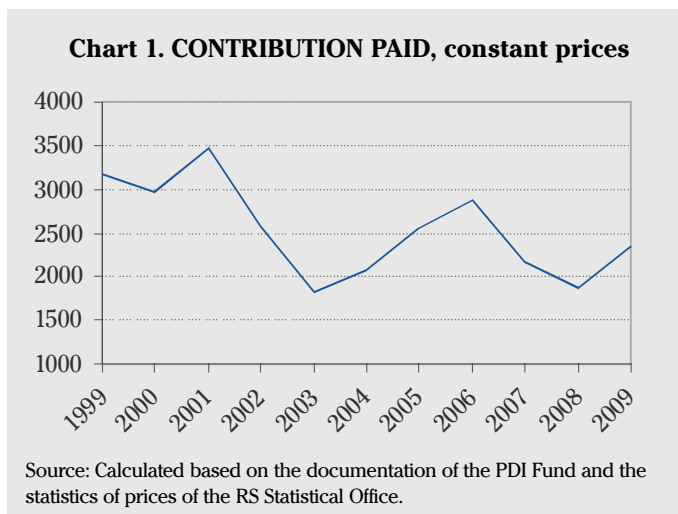
year	number
2005	72.101
2006	73.162
2007	58.686
2008	42.861
2009	51.530

Source: Personal calculation based on the data on the PDI Fund revenues

In other words, the revenue collected from the insured farmers' pension contribution

has in previous years been equal to the annual pension contribution obligations of the number of insured given in the previous table. We thus see that in the period 2007–2009 only about 50 thousand of the insured paid the full annual obligation for pension contributions and that the number is visibly reduced compared to previous years, when it was just over 70 thousand.

Anyhow, the trend of the collection of farmers pension contributions at constant prices is shown in the following chart:



There is an obvious downward collection trend – less and less collection in real terms from year to year, which testifies to the declining interest of farmers for pension insurance, despite the conditions of state subsidies for agriculture by participation in pension insurance and payment of contributions.

The collection is low and it shows in the data on the ratio of actual collection to collection task in an average year: In 2005. – the assessed contribution for the insured was 6.93 billion and collection was at only 1.75 billion dinars, i.e. only one quarter.

19. The number of the active insured could still be greater than in the previous table. As:

1. Not all the insured paid the entire annual obligation, but only part of it, and remain in debt, but keep the actual status of the

- insured; so that (for the given total contributions revenue) there is an appropriate increase of the number of those who have paid something – be it the entire obligation, or only a part of it, and
2. some insured did not pay any contribution in a given year and have not given up their pension insurance but are using the legal possibility of so-called stand-by mode of pensionable service, i.e. not to pay contributions for a certain year, and continue to remain active insured and to be able to pay the contribution next year, and such.

For the reasons mentioned, the number of the insured is higher than the mentioned 50 thousand. We do not know how much higher, but it is probable that the total number of active and „semi-active“ insured is not likely above 100 thousand. The remainder of the total number from the Register records are „dead souls“ – those in it only due to lack of updatedness.

Table no. 2 gives an important piece of data on the number of farmers (i.e. the heads of households) that are insured. In 2006 and 2007 (we have no data for other years)⁴ there were only 66.1 and 62.9 thousand of them. According to census 2002, there were 454.7 thousand individual farmers (also heads of agricultural households), and this means that the Register for those years held only every seventh farmer. Since, we have seen, the nominal status in the Register is unreasonable and excessive, and reduced in the last few years, it means that the number of farmers (heads of household) is actually smaller. Generally, we could assess that the farmers insurance includes roughly every eighth to tenth farmer – head of household.

These data and estimates indicate a big failure; one could say a fiasco of the idea of compulsory pension insurance of farmers. This insurance started off relatively well, with 640 thousand registered insured in 1987, while the state did a fairly good job on the inscription of the insured, but also attracted farmers by granting them years of pensionable service (up to 10 years). Later, however, when they were to move from off and on (in spurts) to systematic work on updating the records,

⁴ There are still separate Registers for farmers - for Vojvodina in Novi Sad, for central Serbia in Belgrade - despite the fact that it has been 18 years since merging the two separate funds. Thus the provision of some pieces of data for the entire Serbia is a special statistical task.

the authorities completely failed and did not find a way to provide updating of the Register records. And without it, one cannot successfully run a mandatory pension system.

20. The following table gives the results of a survey⁵ conducted in the countryside in 2009 on the participation in pension insurance:

Table 4. Payment of pension contribution

	Employed in the agriculture
Pay by themselves	22,3
Employer makes payments	2,1
Don't make payments but used to	43,4
Never have made payments	32,1
Total	100

Source: Social inclusion in the rural areas of Serbia, draft, SeCons and UNDP, December 2009.

Evidently, among those who are active in agriculture only one quarter pays pension and disability insurance, while over two fifths had previously made payments, but then stopped. As much as one third of farmers had never been involved in the pension insurance.

The result of the survey that 22.3% of farmers pay pension insurance seems excessive in light of the foregoing facts, and is probably the result of inaccuracies in the survey as the source of information due to the relaxed criteria of the interviewed about what it means to regularly pay pension insurance.

21. We have already seen that the local authorities (municipalities and cities) are obliged by law to submit to the Fund notice of any change of significance for the status of the insured, such as registration for insurance and cancellation of insurance and related personal changes. They, however, do not do that at all⁶, so that the PDI Fund is forced to limit itself only to the changes reported to it by the insured themselves due to their needs: be it cancellation of insurance (due to death, transfer to another insurance etc.), be it registration (for acquiring the enti-

⁵ The sample for the survey covered 1,621 households from rural Serbia.

⁶ „The system of submitting registrations for and cancellation of insurance for this category of the insured by the municipal body does not function at all“, this is a statement from the *Report on operation of the Republican fund for pension and disability insurance for 2008*.

tlement to agricultural subsidies etc.)⁷. Of course, the number of the insured is automatically decreased by the number of the farmers who get retired during a year. All this, of course, is totally insufficient to maintain the necessary databases on insured persons and their affairs, since the Register records keep those who long ago cancelled the agricultural pension insurance (transferred to employee insurance or self-employed insurance) but did report it, then the deceased insured, members of agricultural households who are no longer under the law obligated to be insured but have not cancelled insurance, etc.

There are weaknesses in the Tax Administration, as even it does not submit to the PDI Fund all the information about the payment of contributions, etc. The annual report of the PDI Fund mentions „non-performance of the legally prescribed obligations by Tax Administration (failure to submit M-4 forms for the self-employed insured and farmers)“⁸. This in other words means that the PDI Fund does not know who of the insured is paying contributions and who is not, it therefore does not know who from the Register is really active and performs their duties, and who has long ago stopped doing so. This problem was created, or enhanced, since changing the law in 2003, when control responsibility for payment of contributions was transferred from the PDI Fund to the Tax Administration, which as we have seen, does not do that regularly.

Such insufficiently updated Register records prevent any sensible action of the PDI Fund and the Tax Administration towards collection of due contributions or arrears, since they do not know which person is insured and which is not, who could be covered by mandatory insurance and who could not, who is of sufficient age to become insured and who died long time ago.

22. The other side of the inaccurate Register records and poor payment of contributions by the insured is the high debt of the insured to the PDI Fund. Of course, a part of the debt is fictitious, because it applies to persons who are not or are not intended to be insured. This is what it looked like in 2005:

⁷ The last „census“ of the insured was conducted in 1997, when the PDI Farmers Fund had the municipal clerks implement it through service contract, but the result was not good.

⁸ *The Operations Report of the Republic Fund for Pension and Disability Insurance for 2008.*

- Debt carried over from 2004 – RSD 7.71 billion,
- Contribution debited for 2005 – RSD 6.93 billion,
- Contribution collected for 2005 – RSD 1.75 billion,
- Balance of debt as at December 31, 2005 – RSD 12.92 billion⁹.

Since then to this day the debt has increased substantially, due to no payment as well as due to debiting the amount of contribution for the farmers who are no longer insured. Due to the latter (i.e. due to the incorrect records) the amount of debt is not reliable, and it is not relevant for the analysis.

23. Strong incentive to the expansion of the mandatory pension insurance should be the linkage of insurance to the entitlement to apply for state subsidies. Namely, the standard requirement of the Government for a farmer to qualify for subsidy is the confirmation from the PDI Fund on payment of contributions for pension insurance in that and the previous year. This is an incentive for the farmers to participate in the pension insurance, i.e. to pay the contributions.

However, it seems incentive to insure by conditioning of agricultural subsidies does not give the expected results. This can be seen from quite a small total number of the insured who are paying contributions or from modest total revenue from pension contributions of farmers (Table 3). Such an outcome could be explained either by (1) the fact that practically all active insured are exactly those applying for the subsidy, so that others do not pay contributions, or by assuming (2) confirmation of payment of pension contributions can somehow be dodged, or bypassed, of which there are indications. Be that as it may, despite a formal request for regular payment of contributions, the number of active insured is modest.

More generally speaking, there are reasons why the request for the regular payment of pension contributions to be eligible for subsidies can hardly bring about a complete success. Let us mention three:

- a significant number of agricultural households is not interested in state subsidies, due to weak human and material resources, in-

⁹ *Information on the position of debt based on the unpaid pension insurance contributions of farmers and measures for the increase of the rate of collection*, Republic Fund for Pension and Disability Insurance of Farmers, March 2006, pp 3-4

attractive subsidies, complicated procedures for the implementation of subsidies, small or unsuitable property and so on,

- some of the state subsidies are modest in value, so farmers do not find it profitable to pay one year of pension contributions in order to get a much smaller subsidy,
- complete and strict insistence on the aforementioned conditioning exercise questions the implementation of agricultural policy, because, if some farms give up the subsidies because of the obligation to pay pension contributions, there will be less interest in the subsidies compared to potential unconditional funding, and therefore only the Ministry of Agriculture would have a motive to drop conditions; In other words, it is natural to see the conflict between the goals of spreading the coverage of pension insurance and strengthening of agricultural production, and it will not be surprising if conditionality is aborted (at least partially); some subsidies no longer requiring certificate of paid contributions: For example, the premium for milk, production with higher added value and to develop non-agricultural activities in the countryside for 2010.

24. There is another powerful incentive for the participation of farmers in the pension insurance: a favorable ratio of paid contributions to pensions, i.e. expense to income of farmers. In fact, farmer insurance solutions in effect give a good financial calculation for farmers and allow them a strategy of partial payment of contributions. This is what it is about:

1. In Serbia, the right to retire is attained at 40 years of pensionable service (men) or at 65 years of age and at least 15 years of pensionable service;
2. Farmers pay pension contribution against the minimum base, which last year amounted to 35% of the average salary in Serbia,
3. There is minimum pension, which for farmers amounted to RSD 8,385 in 2009,
4. If the farmer pays contributions for 15 years, retires and receives (minimum) pension, then they will receive a high subsidy (or gift) from the Republic of Serbia equal to as much as 62.1% of the pension.

Namely, by the implementation of general regulations on the calculation of pension, such a farmer would receive a pension which would

amount to only RSD 3,174¹⁰, but the PDI Fund pays him a minimum of RSD 8,385 per month. This is how the unearned transfer of RSD 5,211 a month is realized, or 62.1% of the paid pension. This gift is paid by the budget of the Republic of Serbia. Of course, with the increasing number of years of pension service that gift is decreasing and the farmers' pension calculated according to the general regulations is equalized with the minimum pension for 40 years of pensionable service, and only then does the mentioned subsidy for male pensioners disappear.

By way of this gift, the legislator has, by all means, given incentive for the participation of farmers in the pension insurance: However, this incentive is only for limited participation, i.e. for the optimization of their position, which results in a strategy to achieve the minimum pensionable service of 15 years. That is when, as we have seen, the financial calculation is the most favorable for the farmer.

Indeed, the average retired farmer has only 16 years of pensionable service (in 2009), which indicates that the optimization calculation works perfectly, at least among those who calculate. (One part of the pensioners has short pensionable service due to the recent date of the introduction of the pension scheme and the gift in the years of service awarded by the law at the time it was enacted.)

On the other hand, the mechanism has completely discouraged regular, decades-long farmers insurance, therefore only few reach 40 years of pensionable service, which is common for men in the insurance of the employed and the self-employed. This is also quite natural and inevitable since the insured farmer does not receive anything by the extension of pensionable service or additional contributions – his pension remains the same, the minimal one.

Moreover, the aforementioned optimization calculations of the insured farmers focused on achieving the minimum required pensionable service (15 years) leads them to avoid payment of contributions for other years of service, which is the cause of their large and uncollectible „debt“, the existence of the institute of stand-by mode of service and mode of payment of debts for pension contributions and other formal

¹⁰ For 15 years of service a farmer acquires 5.25 points (15x0.35), which, multiplied by the value of a general point in 2009 of RSD 604.51, equals the calculated pension of RSD 3,174.

and informal techniques to avoid payment of due contributions and insurance. In other words, the decision on a favorable ratio of (minimum) pension and contributions of farmers created a mechanism that destroys pension system and reduces it to the struggle to avoid pensionable service of over 15 years.

The question remains why all farmers do not use the entire above mentioned convenience and do not „earn“ on a solution offered by the lawmaker, but instead only some do so, so really only a part of farmers participates in the pension insurance. We cannot offer empirical response to this question, we can only speculate. One reason could be the widespread ignorance about the costs and benefits of participation in the pension system and the weakness of individuals' calculations. Another could be a widespread general mistrust of farmers in the pension system, and in the long-term ability and willingness of the state to provide what is written in the Law. Experiences with pensions from the previous period are not positive, which certainly used to increase indifference of farmers to insurance. Moreover, almost all the time there is the constantly hovering question „what is being done with farmers' pension system“?, due to its poor performance, so that farmers feel that the system is not essentially stable, that it is not certain it would survive in the long run. Only a small step is needed from this conception to cancellation of insurance.

25. A strong impetus was given to the non-payment of contributions by the great delinquency in the payment of pensions which was happening until recently and in 2005 even reached 20.5 monthly pensions. Crises of the previous years and the UN sanctions have brought great difficulties in payment of all pensions, but the political elite decided to give priority to the payment of pensions of employees, while farmers' pensions remained at the rear of priorities. Moreover, farmer pensions were not only low and almost two years late, but were also inflation depreciated, which left the extremely unfavorable impression with the farmers: the last traces of confidence in the pension system disappeared, with the conclusion that it can not be counted on as income in old age.

In fact, a *circulus vitiosus* was established in the farmers' pension insurance: weak payment of contributions led to difficulties in financing and delayed payment of pensions, and this led to still weaker payment of contributions and so on. Unfavorable balance was interrupted only

by turning the delinquent pensions into public debt and their payment together with the relevant interest rate in the period 2007–2010. However, lost confidence did not return immediately with the normalization of pension financing, and the adverse consequences of the crisis years of farmers pension insurance are still clearly felt. In other words, the distrust of farmers in the state insurance remains strong.

26. The other element that reduces the attractiveness of this insurance is low pensions, i.e. the inability of farmers to achieve a more than minimal pension. Because the unique minimum base for the payment of contributions for all insured leads to low pensions calculated, and it in turn leads to the payment of the statutory minimum pension practically for all farmers. It is, however, quite low (just over 8 thousand dinars, or 80 Euros), which might be interesting for poor elderly households, but not to better off, mixed households, which also have younger active members. For them, this pension is unattractive and therefore they do not wish to participate in the pension insurance.

On the other hand, the base for the insurance is too high for many indigent households (approximately 450 Euros per year for an individual), which is discouraging for their participation in insurance. So this confirms that the single uniform base is inadequate for rural areas becoming more stratified: for some it is too low (due to low pension), for some it is too high.

27. The following discouraging mechanism is currently at work: base for the payment of contributions is regularly increased in line with the Law, i.e. it follows the growth of nominal wages in Serbia, which exists despite the crisis, while, on the other hand, pensions remain frozen in nominal amount for over a year and a half. In other words, the farmer sees the state asking for more and more through contributions and giving back a constant amount through frozen pensions. That cannot improve the credibility of the pension system in the eyes of farmers.

28. The functioning of the farmers' pension system depends also on the attitude of the state, and on its willingness and determination to implement the Law as laid down. If the state is „soft“ or if it is not able to provide (and enforce) implementation of insurance, then the compulsory insurance can be converted to voluntary, where it is up to the insured themselves whether and to what extent will they be included in insurance.

The willingness of the state certainly exists in the insurance of employed and self-employed, despite some difficulties, so that in these two segments it is obvious to the insured that pension insurance is mandatory. On the other hand, farmers do not have that feeling, because the state does nothing, or barely anything at all, on the provision of compulsory pension insurance, in accordance with the law: there are no penalties for failure to pay contributions, there is no forced collection of contributions, incentives are often awarded to somehow cover non-payment or insufficient payment of contributions (stand-by mode of service, payment of debts out of pension) and such. Simply, no farmer felt any compulsion or heard that someone else felt the firm hand of the state, and it is no wonder that they all behave as if the farmers' pension system is voluntary. And it is really voluntary. The only one who is really insured is the one who wants to be and pays as much as and when he wants. So this is a voluntary insurance, and more so than many of nominally voluntary insurance schemes.

The question remains whether the state, even if it had wanted to, would have been able to provide mandatory insurance given the weakness of Register records and the problems that causes. The response is: yes, it could have. Because, firstly, it has allowed accumulation of the inconsistencies in the Register records, i.e. has not found a way to maintain a correct and relatively accurate list of the insured. It has not created the Register of the citizens of Serbia, has not used the Register for the health insured for the needs of the pension scheme, it has not created the Central Register of the Insured through Social Security scheme (now this task is very slowly moving ahead) etc.

Secondly, even the existing Register records give possibility of coercion: for example, if the insured farmer pays a contribution for one year, and does not report that he cancelled the insurance for the following year, Tax Authorities could use coercive measures against him. And thirdly, the state has demonstrated clear lack of desire to collect tax on agriculture income from farmers, which is a more serious liability from the standpoint of the state. The tax is kept very low (for two decades there has been no adjustment of liabilities in dinars, despite high inflation) and then its collection was suspended for reasons of greater administrative costs than revenue. If the state intended to burden farmers by tax, it could either adjust obligation under the cadastral income or replace this tax with another. In this way it is giving tax amnesty to

a class of taxpayers, which of course inevitably means that it is „soft“ with the pension contributions as well. Of course, for us here it is not necessary to consider the deeper social and political causes of such strategy in the relationship of the state and the farmers – it is sufficient just to make note of the state of affairs.

29. Gordana Matkovic, the Minister of Social Affairs, was the one who had the only serious plan for the recovery of farmers' pension insurance and who tried to implement it back in 2003. In fact, this system was then faced with the same serious problems: non-payment of contributions and big debts on this basis, messy Register records, etc. Her plan was as follows:

1. to reduce the accumulated debt with the help of a new concept called stand-by pensionable service, i.e. to write off a substantial part of the debt without pension rights for the write-off years, which was legitimized by a new law on pension insurance in 2003 enabling the stand-by service of five years,
2. to reduce the future contributions burden of agricultural households, by replacing insurance obligation for all household members by a single member obligation, while others can choose whether or not to be insured, which is also legitimized by new law on pension insurance in 2003,
3. to fix Register records through the creation of the Central Register of the insured, which was started by providing World Bank loan for the job, but the Central Register was legalized just this month (May 2010), which means the matter had been protracted for six years,
4. to take stricter attitude to the default contributions, that is to apply all the techniques of collection that are prescribed by law and to apply them to employees and the self-employed (credible threat of forced collection, etc.).

However, the government that started the implementation of this plan was dissolved in late 2003 and replaced by the new post-election one, which did not proceed to implement it.

Let's look at some of the important applications significant for insurance submitted between April 10, 2003 (when the new law on pension insurance came into force) and December 21, 2006, which changed many of the insured status:

Table 5. Application for changes in insurance

Reason for application	Number, u 000
Termination of insurance (reduction of obligation to only one member)	40,7
Stand-by of pensionable service (Art. 219)	59,7
Stand-by of pensionable service (Art. 14)	39,7

Source: Operations report for 2007, Republic Farmers PDI Fund

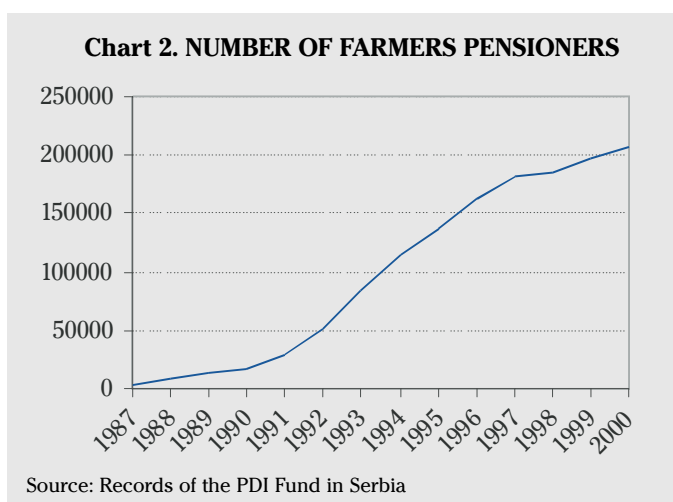
As can be seen, the insurance for about 40 thousand insured was canceled due to changes in regulations, which left an insurance obligation for only one member of agricultural households. It is a modest number that testifies more to the failure to report changes than to the desire for all household members to remain insured.

The number of applications for stand-by of pension insurance is considerable – about 100 thousand – and indicates the applicant wish to postpone solving the problem of the accumulated debt to the pension fund, or debt based on unpaid contributions.

This, in other words, shows the desire of farmers to preserve acquired rights from pension insurance and keep the insurance until further notice without cost, and without paying long overdue obligations based on pension contributions. What happens next remains to be seen.

PENSIONERS

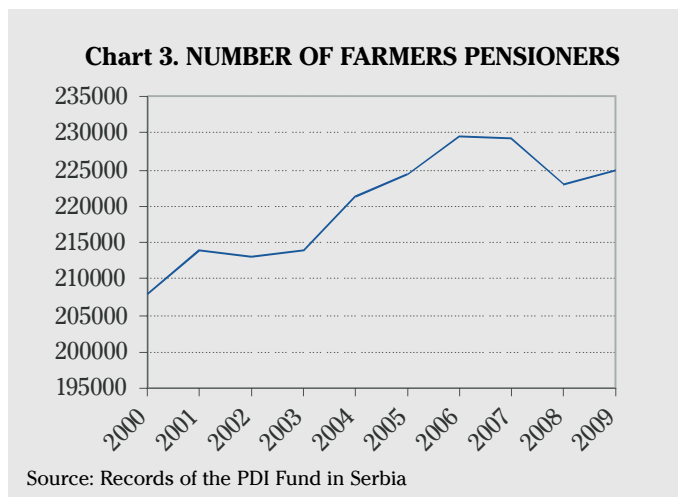
30. Mandatory pension insurance of farmers was founded in 1986, and only fourteen years later, the number of pensioners already reached over 200 thousand:



Such an explosive jump of the number of pensioners in a relatively short period is a consequence of the two legal solutions:

1. small number of years of service required for the realization of old age pension (15 years) and
2. awarding a gift of one to ten years of pensionable service to the first generation of pensioners under the law, and without payment of contributions.

During the last decade the number of retirees is moving far more moderately:



The rate of increase in the number of pensioners amounted to only 1.7% in the period 2000–2006. Since then, the number of farmer pensioners has been in stagnation essentially¹¹, which most probably means that the maximum in the number of pensioners has been reached. As the number of the insured has been decreasing all the time, it is inevitable after a period of maturing of the pension system for it to reach the maximum number of pensioners and then for the number to begins to decrease.

31. The movement of pensioners over the last two years is shown in the following table:

¹¹ Small decrease in the number of pensioners in 2008 is the consequence of the administrative difficulties of merging the three funds into one and the resulting delay in the administration of retirement claims.

Table 6. Changes in the number of pensioners, 2008 and 2009

		2008	2009
Old-age	new beneficiaries	2700	10387
	deceased	8269	9096
Disability	new beneficiaries	553	1188
	deceased	489	583
Survivor	new beneficiaries	1422	2632
	deceased	1515	1596
Total	new beneficiaries	4675	14207
	deceased	10273	11275
	Total change	-5598	2932

Source: Records of the PDI Fund in Serbia

By all accounts, these data indicate the beginning of the process of reducing the number of retired farmers. Let us take a closer look. During the last two years the trend of the number of new members is not representative, since the pooling of funds brought about the mentioned administrative difficulties. Thus, the total number of new pensioners in 2009 is three times higher than in 2008, which can be interpreted by certain delays in rendering decisions on retirement in 2008 and in resolving the stalemate in 2009 (together with regular processing of current requests). Thus 2008 is lower than it should be and 2009 is higher. On the other hand, the number of deceased pensioners is similar in both years. The total result is that in 2008 the number of farmers pensioners was reduced by 5.6 thousand and in 2009 increased by 2.9 thousand. If it is assumed that the aforementioned slowdown from 2008 was made up for in 2009, which is realistic, then the sum of the changes for the two years would give a more realistic picture of the number of farmers retired: it is decreased by 2.7 thousand.

32. The structure of the farmers' pensions is shown in the following table, along with the structure of the employees and of the self-employed for the comparing purposes:

Table 7. Share in the total volume of pensions, 2009, in %

	Old-age	Disability	Survivor
Employees	51,5	24,9	23,6
Self-employed	44,0	29,8	26,2
Farmers	83,4	5,6	11,0

Source: Records of the PDI fund in Serbia

The share of the old-age pensions in the total number of farmers' pensions is very high and in 2009 was 83.4%. That percentage used to be even higher, but was reduced due to increased share of disability and survivor pensions during the last decade.

These data show that there are not many disability pensioners among the farmers – only one in twenty. It is possible that part of the cause may be the physical activity of the farmers in the fresh air, which preserves the health, but it is also likely that the farmers are less skilled in using all the possibilities offered for obtaining the disability pensions. The share of the disability pensioners in the total number of pensioners among the employees and the self-employed is 5 to 6 times higher.

Even the share of survivor pensions in the total number of farmers' pensions is lower than with employees and the self-employed by more than one half. This is the consequence of two reasons: (1) due to short period of usage of this type of insurance, among the pensioners there is still majority which belongs to the first generation of pensioners, so the number of survivor pensions is still low and (2) since until recently all members of the household were insured under mandatory insurance, many women have become entitled to pensions, and there was no need for them to shift to survivor pension upon the potential death of their husbands in the same amount.

33. It is interesting to take a look at the gender structure of the farmers pensioners: in 2008 the share of women was 62.5%, and of men it was only 37.5%! More women among the pensioners is in accordance with more women among the insured, in the official register: In the end of 2006, for example, there were 174.8 thousand women and 157.8 thousand insured men.

We also have thorough data on gender structure for old-age and disability pensions in 2009:

Women are very dominant among the old-age pensioners – they make as much as 63.1% of the total number. With the disability pensioners there is a relative balance, men make a little bit above one half of pensioners (52.8%). Undoubtedly, women prevail within survivor pensions beneficiaries.

Table 8. Gender structure, December 2009, in %

	Old-age	Disability
women	118145	5926
men	69107	6620

Source: Records of the PDI fund in Serbia

One can only guess what the reason for this domination of women may be. The author believes that the main reason is the fact that men are those who are usually employed and in that way they ensure additional income later, via insurance of the employed, and they obtain higher pension than they would have as farmers, while women predominantly keep the status of farmers and assisting members of the household, obtaining low pension, which provide certain basic safety and regular income, which covers basic needs in a household such as electricity, coffee, sugar. In other words, the pension of a woman is understood as a last solution for old-age insurance, if everything else fails.

34. The following table shows the age structure of the old-age pensioners:

Table 9. Age structure of the old-age pensioners, December 2008, in %

	Total	Women	Men
51-55	0,1	0,1	0,0
56-60	2,6	4,1	0,1
61-65	11,0	14,7	4,7
66-70	25,3	27,8	21,2
71-75	34,6	36,6	31,4
76-80	22,1	15,9	32,5
81-85	3,9	0,8	9,0
86-90	0,5	0,1	1,1
90+	0,1	0,0	0,1
Total	100,0	100,0	100,0

Source: Records of the PDI fund in Serbia

The cohorts aging from 65 to 80 are predominant. It is expected, since, on one hand, it is in accordance with the terms of retiring of men (women have larger share of cohorts of 61-65 years of age due to more favorable conditions, i.e. earlier retiring), and on the other hand, due to biological reasons of generations over 80.

Table 10. The average age of old-age pensioners, 2008

	Old age pensions	
	men	women
Farmers	74	70
Employees	70	65
Self-employed	70	62

Source: Records of the PDI fund in Serbia

The table 10 shows the average age of pensioners from all the three subsystems of the pension insurance:

The average age of a farmer pensioner is high: 74 years of age of men and 70 of women. It is significantly higher than among the pensioners belonging to the other two subsystems. There are two reasons for higher average age of the farmers pensioners: (1) almost all pensioners are retired on the basis of their age, while with the other two types of insurance younger people may be retired too on the basis of the years of service (including the accelerated service) and (2) inflow of the new generations of pensioners has been slowed down recently, thus the average age increases gradually.

We will take a look at the age of pensioners, but only of those who were retired in the last year we have the data for (2008).

Naturally, the average age of the new farmers pensioners is lower than with all the current pensioners. With farmers, the average age here is also visibly higher than with the other two pensioners' categories, due to mentioned reasons.

Table 11. The average age of the new old-age pensioners, 2008

	Old age pensions	
	men	women
Farmers	64	60
Employees	60	57
Self-employed	62	57

Source: Records of the PDI fund in Serbia

The data on age show that farmers' pensions are more effective in reaching the essential purpose of the pension insurance than it is the case with the other two pension insurance subsystems: insurance of income in the old age. Farmers get retired only when they grow old and as pensioners they are, on average, older than others.

35. The number of the years of service is particularly important for the pension system, since that is the indicator of how much they contributed to the pension insurance during the time they were employed.

Table 12. The average number of the years of service of the old-age pensioners; Dec 2008

	Old age pensions	
	men	women
Farmers	16	16
Employees	36	31
Self-employed	32	29

Source: Records of the PDI fund in Serbia

An average farmer pensioner, regardless of whether we speak about women or men, has only 16 years of service. It results from different facts:

FUNCTIONING AND PROBLEMS

- when the scheme was established, years of service were granted, so even those without 15 years of service were entitled to pension,
- the pension scheme is relatively new, i.e. many people did have possibilities to acquire more years of service before they reached certain age adequate for retiring
- the payment of contributions was avoided and the government accepted such practice in various ways (suspended years of service, payment of debts from pensions, etc).

Anyway, this average of 16 years is less than half of the years of service required for women, not to mention the number of years required for men. It is far too little in comparison with both the pensioners coming from the insurance of the employed and the self-employed, who almost have double the years of service.

This result clearly indicates one important reason for the deep crisis of the pension insurance of farmers: not only that the insured pay very modest contributions a year, which was discussed earlier, but the contributions are paid for the small number of years, which not only causes financial difficulties for the insurance system, but also deprives the pension insurance concept of the logic altogether. The logic of the pension insurance requires an active insured person to work and make contributions for over 35 or 40 years, which can be less in exceptional cases only: disability, personal issues related to interrupted insurance, etc. The insurance may not be based on so small number of years with so low contributions paid by so small number of the insured, as it is the case now in the pension insurance of farmers.

The similar case is with disability pensions:

Table 13. The average number of the years of service of the disability pensioners, Dec 2008

	Old age pensions	
	men	women
Farmers	15	14
Employees	26	23
Self-employed	24	20

Source: Records of the PDI fund in Serbia

The average period of service of the disability pensioners is significantly shorter than the period of service of the employed and the self-employed. To some extent, it is normal, bearing in mind the short service period of farmers pensioners, and of the active insured farmers. If an

average insured farmer has relatively few years of service, it is then natural that the insured entitled to the disability pension should have few years of service.

36. The following table shows the data on average number of years of service of the new pensioners, i.e. those who retired during 2008.

New users of old-age pensions among farmers have, on average, 20 and/or 21 years of service. It is a tangible improvement when compared to the average number of years of all farmers pensioners (16 years) and is also an improvement related to some earlier very liberal solutions

(granting the years of service, etc). However, the average value is still significantly below the value of pensioners coming from the sector of the employed and the self-employed, who, on average, have more than 30 years of service, both women and men.

Table 14. The average period of service of the new old-age pensioners, 2008

	Old age pensions	
	men	women
Farmers	21	20
Employees	37	31
Self-employed	35	31

Source: Records of the PDI fund in Serbia

PENSIONS

37. The farmers' pensions are generally low and in the previous period were not paid regularly. The (ir)regularity of payments is shown in the following table:

The table shows that the main delays were recorded in the second half of the '90s, which is quite unusual. The most severe crisis due to UN sanctions occurred in the first half of the '90s, and the crisis relaxed significantly upon the signing of the Dayton Treaty in 1995. Even the first sale of Telekom in 1997, which brought general relaxation in the country in that year, did not bring anything for the farmers pensioners: they were paid only 6 pensions.

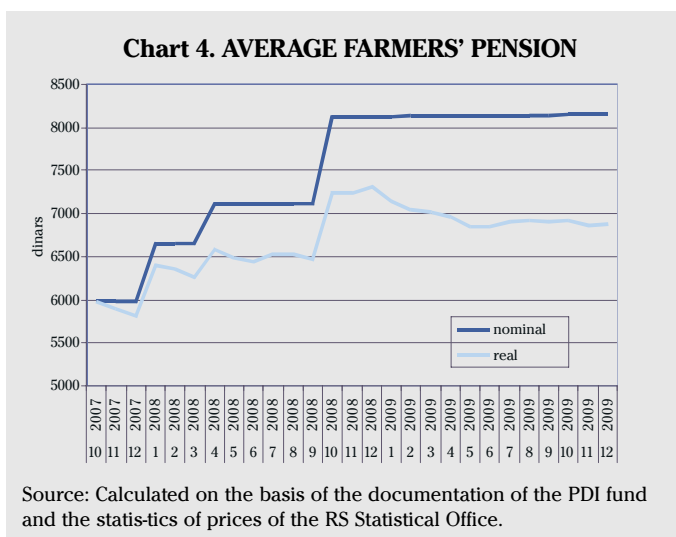
Table 15. The number of paid pensions per year

1995	12
1996	10
1997	6
1998	8
1999	5
2000	10
2001	19
2002	12,5
2003	7
2004	12
2005	11,5
2006	12
2007	12
2008	12
2009	12

Source: Records of the PDI fund in Serbia

After 2000, the situation improved: pensioners are usually paid 12 pensions per year, especially in the last few years. In 2001 they were paid 19 pensions in order to cover the delay, while in 2003, the year of the wide reform of the pension system and its subsystems, they were paid 7 pensions only.

38. During the last few years, trends related to the average pension of farmers looked like this:

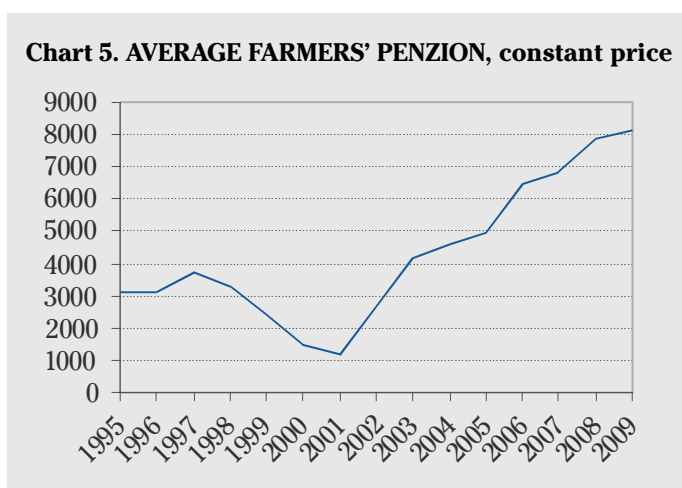


We can identify three leaps: (1) extraordinary increase of pensions in January 2008 by 11.06%, (2) regular increase on the basis of the indexation in March 2008 by 6.97% and (3) combined regular increase on the basis of indexation by 4.13% and extraordinary increase by 10% in October 2008. After that, the pensions were frozen at nominal amounts upon the economic crisis break-out and reached agreement with the IMF.

Before the pensions were frozen, the following mechanism for indexation was applied: The pensions were adjusted twice a year, in April and October, according to the formula which involved the trends related to prices and salaries/wages. The formula was changed in the following situations: while in 2001 the formula established as „Swiss formula“, in which weights of prices and salaries/wages were equal (50% each), later the weight of the salaries/wages was decreased only to be excluded from the formula in the end, so the indexation mechanism contained only prices, i.e. costs of living.

The nominal trends of pensions do not equal the real trends, as there is a permanent inflation. From the previous graph we can see that the growth of the real pension of farmers (lower line) existed until the October 2008, and that afterwards the average pension decreased due to combination of the nominal freezing the pensions and inflations, although the decrease was gradually slow.

39. The long-term graph of trends related to the real value of the farmers pensioners follows:



As the graph shows, the average pension was dropping until the beginning of this decade, as a consequence of the deep crisis, financial difficulties and existing indexation mechanism. Since the beginning of this decade, the average pension increased rapidly as a result of the indexation mechanism which was significantly relying on the trends in salaries/wages, and they grew rapidly during several years.

However, the rapid growth in the long-term did not lead to significant increase in the average pension, due to very low values in the past. The following table proves that the pensions of farmers are still low:

Table 16. The average pension of farmers compared to the pensions of the employed and the self-employed, in %

	Farmers/ employed	Farmers/ self-employed
2001	9,9	10,0
2003	28,4	29,0
2006	37,4	38,5
2009	37,5	38,3

Source: Records of the PDI fund in Serbia

The average pension of farmers was only one tenth of the average pension of the employed and the self-employed at the beginning of the previous decade! And the latter ones were not high, on the contrary. Over the following years, and after the regulations on minimum pension were amended, that ratio improved a little and the average farmer pension reached around 38% of the average pension from the other two types of insurance. It has remained on that level to date.

40. The importance of the legal provision on minimum pension is indicated by the domination of exactly that minimum pension among the farmers:

The minimum pension is paid to 183.5 thousand farmers pensioners, i.e. as much as 81.7% of the total number. It is the result of the above described mechanism: the basis on which the contributions

are paid is low, and pensioners on average have very short period of service, so these two factors result in the pension lower than minimum pension, and thus the majority of pensioners are paid the minimum pensions.

Pensions lower than minimum are paid to survivors as these pensions are not subject to general minimum pension provision, while only one in ten pensioners is paid the pension which is above the minimum level.

41. Let's have a look at the ratio between the average pensions in certain categories of the farmers-pensioners:

Table 17. Pension distribution, January 2010

Pension amount	number	in %
up to 6000	26929	12,0
up to 8384	3628	1,6
minimum 8385	183548	81,7
up to 10681	7144	3,2
over 10682	3516	1,6
Total	197836	100

Source: Records of the PDI fund in Serbia

Table 18. The ratio among the three pension categories

	Total	Old-age	Disability	Survivor
2001	100	101,9	108,5	75,2
2005	100	102,5	107,8	74,1
2009	100	102,7	109,1	75,3

Source: Records of the PDI fund in Serbia

The old-age pensions are just a little higher than the average farmer pensions, while the disability pensions are higher than the old-age pensions. The survivors pensions are lagging behind and they are only

three quarters of the general average pensions. The ratios between the categories of pensions are stable and have not changed for a long period of time.

OTHER BENEFITS

42. The pension and disability insurance involves, apart from pensions, other benefits too, such as allowance for home health aides and allowance for bodily damages, and funeral costs. Let's look at the basic figures:

Table 19. Other benefits, December 2009

	Number of beneficiaries	Amount of dinars
Home health aides	10132	13321
Allowance for bodily damages	1547	606–5598

Source: Records of the PDI fund in Serbia

The insured or the beneficiary who needs the assistance and care of an aide due to nature and complexity of his/her injuries or sickness is entitled to use the allowance for home health aide. The level of this allowance is indexed in the same way as pensions.

During the last few years, there has been a trend of increasing number of beneficiaries of home health aides among the farmers pensioners. The reason for that may be lying in the fact that this benefit is actually double higher than the average farmer pension and thus very attractive. The reason may also be that the farmers have become more informed on various possibilities the pension and disability insurance provides.

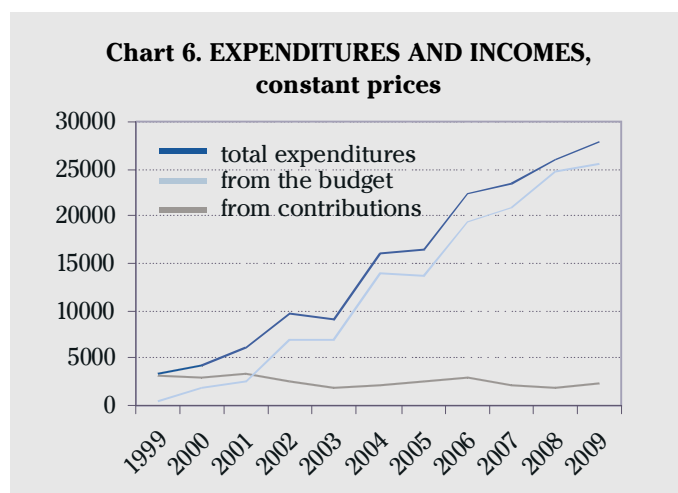
43. The allowance for bodily damage is intended for the cases of reduced functionality of organs or parts of the body, which makes the normal activity difficult and requires significant effort in meeting the life needs, regardless of the fact such state results in the disability or not. It may occur in the job or outside the job, and it may be paid to those who already receive pensions or not.

FINANCING

44. The most serious issue related to the pension insurance of farmers is of financial nature: as early as in the mid 90's, the revenues did not

match the expenditures and the growing deficit appeared. Since the system is based on the pay-as-you-go principle, any deficit in income has to reflect in the financial results of the insurance.

Let's look the trends in the total expenditures (pensions, other social benefits and (small) administrative expenses) and revenues originating from the contributions and the budget, expressed in constant prices in 2009 in order to avoid the effect of the inflation:



While the revenues from pension contributions practically have stagnated or mildly dropped in the last decade, the expenditures have grown constantly in the same period. The growth is the result of the increase in the number of pensioners and of the real pension growth from 2001 onwards. The difference between these two items is a deficit of the pension insurance of farmers which has to be financed by the budget of Serbia.

The share of the pension contributions in financing the expenditures of pension and disability insurance of farmers has been decreasing, and in 2009 it was only 8.5%, while the budget of Serbia has to provide the rest, more than 90% of the necessary funds. Such situation completely undermines the basic concept of the PAYG system, which is to cover the current expenditures with the current revenues from contributions, i.e. financing the pensions by active employees. It would be also in accordance with the concept if the budget temporarily or in small amounts covered the financing of the pensions, but not if the

budget took over the whole burden. In that case, it is some other system.

45. The current system, if we can call it a system at all, resembles the model of social pensions, but only partially. Namely,

- it resembles the system of social pensions because it is financed from the budget, i.e. by all the tax payers regardless of whether they will be entitled to receive these or some other type of pensions,
- it differs from the model of social pensions since it does not mean that everybody is entitled to pensions– not all the population, not all the farmers; in order to be entitled to these pensions, it is necessary to be a farmer and to pay the entrance ticket, i.e. to pay some contributions for some time, but in the amount significantly lower than the expected amount of the pension.

SUMMARY

1. In the mid 80's, Serbia established mandatory pension insurance for farmers,
2. the state had, and still has the poor enforcement policy towards the farmers and thus avoids enforced collection of contributions, turning the mandatory insurance into voluntary,
3. not more than 100 thousand farmers can be considered the active insured,
4. the main register of the active contributors is not updated, since the state bodies which are in charge for updating it according to the law (municipal administration bodies) do not do their job at all, and they are not under pressure of the central government to do it,
5. the farmers are mostly not interested in pension insurance and they avoid participation and payments of pension contributions, primarily due to lack of confidence in the solidity of the system,
6. very soon, after 15 years, the number of pensioners reached 200 thousand, due to liberal solutions from the time of the system establishment,

FUNCTIONING AND PROBLEMS

7. the number of pensioners is probably at maximum now, since the demographic processes and decreased number of the insured will result in the reduced number of pensioners in the future,
8. the average years of service for farmers is very low, which indicates that their contributions to the system were very low,
9. the pensions are low and unattractive for many,
10. the farmers pensioners receive huge transfers via minimum pensions, which are almost always higher than those calculated according to the law,
11. as early as 10 years after the establishment, the insurance system faced a financial crisis; at the end of the 90's the deficit was compensated by delayed payments, and during the previous years by increased transfers from the budget of the Republic.

POSSIBLE OPTIONS FOR THE REFORM OF THE FARMERS' PENSION INSURANCE

46. In the second part of this paper we will consider the main options for dealing with the farmers' pension insurance crisis. We will not deal with the small changes in the existing model, but with the most important issues, in order to point out the crucial dilemmas to the decision makers.

We believe that there are three main options:

- radical rehabilitation of the farmers' pension insurance,
- extension of the existing situation and
- cancellation of mandatory insurance of farmers.

We have to emphasize immediately that the political circumstances will primarily affect the choice of options, not the technical or conceptual side of issues. Since, the existing difficulties, i.e. the profound crisis of this segment of the pension insurance is primarily the result of the governmental activities, which organizes and manages this type of insurance very poorly due to its own weakness and political influences. Therefore, the subsequent dynamics of farmers' pension insurance shall depend primarily on political considerations, and afterwards on other issues – technical, human, financial... That is why the primary remedy for the crisis of the farmers' insurance must be sought in the political sphere, i.e. in the change of its relation towards the farmers' insurance.

Radical regulation of the system requires considerable political energy, namely a substantial investment of effort in renovating the complex administrative structure, on one hand, and change in the attitudes towards non-enforcement of farmers' obligations, i.e. implementation of the administrative repression when necessary, on the other hand.

Extension of the current situation is probably the easiest option from the standpoint of political factors. Since, in that case, no radical decisions should be made, and therefore there is no danger of losing political ratings of the ruling coalition.

Even the cancellation of mandatory farmers' insurance would not have any direct effect on anyone, since it is only formally required and because the farmers are not particularly interested in it, but the ruling

political parties would face certain political disadvantages due to cancellation of a social institution that is usually considered progressive and necessary in the modern world (even if it is not true).

OPTION 1: UPGRADING OF THE EXISTING MODEL

47. Structural and functional weaknesses of the existing system of farmers' pension insurance are numerous and deep, and thus the status of the system is extremely unfavorable: it does not provide a quiet old age to agricultural pensioners, and it costs very much.

As we have seen, serious gaps exist in conceptual sense and, even more, in the operation and implementation. Therefore, the improvement and revitalization of this segment of the pension insurance would require considerable work. The essential problem is the performed fundamental transformation of mandatory into voluntary pension insurance, with all the associated consequences of poor coverage, the poverty of the old farmers and budget efforts, wherefrom the imperative need for providing mandatory farmers' pension insurance supervenes.

Radical reform of the agricultural insurance would include changing several constructive elements, but there are two basic and necessary changes:

1. creating and maintaining accurate register records of the insured farmers, with all the relevant data and
2. change of state's attitude towards the farmers, i.e. termination of treating the farmers as voters who need to be indulged and their treatment as citizens who must obey the law or will be forced to do it.

These two changes do not go one without the other, i.e. they must be implemented together. Since the accurate register records mean nothing without the willingness of the state to ensure compliance with the law, just as the willingness to use legal means to force the farmers to participate in the mandatory pension insurance means nothing if there are no valid register records.

Since there is no doubt that the main cause of the present difficulties is negative attitude of the state, it should primarily pass a decision on both changes – whether it intends and can perform them entirely. Half-way solutions will not yield results.

Register records

48. Regulating register records is a necessary precondition for the good functioning of farmers' pension insurance. It should be implemented by the Central Register of Mandatory Social Insurance, legalized in May 2010,. It should comprise two operations: (1) creation of the current data base of the insured farmers, with the necessary information, and (2) creation of a reliable system for updating the register records in the future.

Ad1. *Law on the Central Register of Mandatory Social Insurance* did not foresee radical solutions for the creation of new, so-called unique database, which will replace the Register records and include all relevant information about clients and contributions. A new census for farmers, like the one implemented 25 years ago, is not planned. The possible solution is to take over the Register records of the PDI fund, and possibly update it from other sources.

Central register¹² could potentially update its base from two sources: the Tax Office and Treasury Department. Since both have their records related to farmers.

49. Database of the Tax Administration is a database that occurred during the establishment of pension insurance, and its update was even weaker than the Register records one. Because it was changed only if new information was provided by the insured, and for the purpose of his/her needs. There is a significant number of dead, i.e. of those who have ceased to be insured by their will or due to death, or transferring to another insurance company, and the younger generation is not registered in this database either, that is those who later acquired the right or obligation to be insured¹³.

Another Tax Administration database is the one with the data about the farms, since they were needed for the assessment and collection of taxes on cadastral income, and not about individuals on these properties, i.e. members of agricultural and mixed households. Besides, that database itself is quite incorrect, because it has not been updated for

¹² Central register should begin to operate in late 2012. Until then an institution will be created, workers hired, equipment and software obtained and other institutions' databases downloaded.

¹³ The Tax Administration database of the insured currently (May 2010) comprises 724 333 individuals. This number also includes retired persons, and their exact number we could not establish.

at least five years, since the tax on the cadastral income has not been charged any more. Most importantly, individuals who have long since died are still named as heads of many households, because the inheritance proceedings in Serbian countryside often remain uncompleted, and therefore the cadastre and land books do not reflect the ownership accurately.

50. The following possibility of updating the Register records is the *Register of agricultural households*. It was formed in 2005, driven by the desire to create a registry similar to the Register of companies, and for the purpose of creating a database on agricultural households that would allow better planning of agricultural policy. Strong incentive for self-registering of farmers into the Register is the state policy in the field of agricultural subsidies. Namely, the policy standard requires from the subsidy users, i.e. the interested farmers, to enroll in the *Register of agricultural households*. Otherwise it is not possible to apply for subsidy.

The register is technically managed by the Treasury Department of the Ministry of Finance, while under regulatory terms it is under the Ministry of Agriculture. Farmers apply at local branches of the Treasury Department.

The basic features of this Register are as follows:

- the requirement for registration is at least 0.5 hectares of agricultural land on which agricultural production is performed,
- all farms are entered in the Register, regardless of legal form, such as those owned by farmers, entrepreneurs, companies, cooperatives and other legal entities,
- as farmers are concerned, personal data of holders and members of agricultural households are entered in the Register, as well as the data on land holdings, plant crops and cattle, excerpt from the cadastre and land registry as proof of ownership, etc.,
- entry in the Register is voluntary, so the farmers can, but do not have to, register themselves and their farm,
- and when the agricultural household is actually entered, it is not required to provide all stipulated data, so, for example, it is not mandatory to enter household members, etc.

- up to 2010, the household registration in the Register was performed each year, while from 2011 it will be performed only if necessary (if there are changes).
- the main incentive for the registration in the Register is of financial nature: the state agricultural subsidies are (mostly) paid only to the households that are registered in the Register.

After an unsuccessful start, when the number of registered households was small, in recent years it has increased considerably:

However, in 2010, number of registered households was reduced by nearly one-third, according to the preliminary data. Whether the cause was reduced attractiveness of subsidies for farmers or increased control of the submitted documentation, as Ministry of Agriculture claims, remains to be seen.

Table 20. Number of registered agricultural households

date	in thousands
31.12.2008.	420,4
31.12.2009.	441,9
April 2010.	approximately 300

Source: Treasury Department, MoF; for 2010, Pres, 24.4.2010.

Although the above mentioned number refers to all types of farms, there is no doubt that by far the largest number belongs to individual farmers and mixed households. Number of others (companies, cooperatives and similar) is certainly small.

Since it is generally estimated that there are 700–750 thousand farms in Serbia, it would mean that the Register includes a substantial portion of the total number, about one-half. There is no doubt that the Register comprises wealthier individual farms that usually produce for the market, with the ambition to modernize and increase crop and livestock production. Only for households with larger market surplus the inclusion in the system of state stimulations is meaningful. On the other hand, among the households not entered in the Registry probably there are poorer, less productive households, with small or nonexistent market surplus, and consequently no state subsidies are sufficient bait for the registration. Also those may be households with elderly people and those less literate for whom collection of the registration documents represents too big a task. If so, and probably that is the case, then the Register insufficiently includes the households and individuals that need

pension insurance the most, i.e. the households with modest human and material resources.

The database of the Treasury Department, i.e. the Register of agricultural households, could, therefore, be a good supplement to Register records of the PDI fund, but it is still not the case. As: (1) entry in the Register is voluntary, and based on the application of farmers, which means that it does not cover all agricultural households and all their members and (2) Treasury Department has no legal obligation to submit their data to the PDI Fund, and it does not do so.

The question is whether it is possible to prescribe the obligation of registration in the Register of agricultural households. It would benefit the farmers' pension insurance, but it is probably not sufficiently strong reason: Because:

- Many farmers would not respond to the call for registration despite the provisions on the obligation, just as they are also not responding to the obligation to pay pension contributions; the question is whether the state could compel them to register;
- Many older farmers are not skilled in the administrative procedures, especially if they are accompanied by numerous papers, such as registration in the Register of Agricultural Households (RAH) is, and probably not even their good will would have a required outcome;
- Ministry of Agriculture, as the owner of the RAH, is not especially concerned for the registration of all agricultural households, i.e. for those that do not participate in programs of agricultural subsidies.

For these and similar reasons it is likely that the introduction of compulsory registration would not ensure the desired outcome: the registration of overall agricultural population.

51. Ad 2. Adoption of a legal provision that would stipulate mandatory and permanent cooperation between the Ministry of Agriculture and the PDI Fund, i.e. Central Registry, on the transfer of the data from the RAH to the PDI Fund, i.e. the Central Registry, is easy to perform and it should be done at the earliest opportunity.

There is one source of data that could solve all the aforementioned major difficulties: the Serbian population census scheduled for 2011. It will comprise a segment on the agricultural households and the population living in them, with detailed data. Moreover, there is also a technically simple way to transfer data from the census database to another one: the inhabitants will be registered with the ID number, and it would be possible to use the census data for completing the database of the insured farmers.

Obstacle to this usage of census is legal regulations, since they, with good reason, specifically prohibit the use of individual data from the census for any purpose other than the prescribed analytical one. This obstacle is not only formal, so it could be overcome by changing the law, but it is also essential. If the census was at least once used for tax and similar purposes, the population of Serbia would probably feel cheated and would participate in the following censuses in the far smaller number. Thus the idea of census being the method for obtaining numerous information about Serbia, its citizens and their property would be compromised and probably destroyed. Therefore that road should not be taken.

Definition of insured person

52. The existing law on pension insurance defines the insured farmer in an unclear and from time to time a very confusing way, so it should be improved. Let us look at the entire Article 13 which deals with this issue:

Article 13

(1) The insured – farmers are the persons who, according to the law, are deemed to be in the agriculture business (farmers, members of the farmer's household and members of the mixed household), if they are not: The insured who are employed, the insured who are self – employed, pension beneficiaries and those in school.

(2) Household, in the sense of paragraph 1 herein, shall be deemed as a unit of living, undertaking business activity, spending the income generated by the work of its members, regardless of blood relation.

(3) The insurance is mandatory only for the head of the agricultural household, i.e. at least one member of the household, while the other

members of the household can be insured under the conditions prescribed by this law.

53. A few comments:

- paragraph 1 speaks about the insured, with unclear content of this notion; namely, it would be normal for the insured to denote a person insured (the person paying contributions and acquiring the right to pension), but here this is not the case by all means since in paragraph 3 it is stated that only some of the insured are insured by mandatory insurance while the others may get insured, but do not have to; therefore the so called insured from paragraph 1 are only candidates for insurance, i.e. they represent a group of persons who can but need not become the «actual» insured; here a technical amendment of paragraph 1 is needed, so that the word «insured» is erased from the beginning of the text;
- a similar confusion exists with the notion of agricultural household; namely, paragraph 1 mentions farmer's household (in addition to the mixed household), and paragraph 3 mentions agricultural household; the question remains whether the two are identical or not; in case they are identical, then the mixed household is not agricultural household (as it is mentioned separately in paragraph 1), thus the obligation regarding insurance in paragraph 3 does not apply to it, as it pertains only to agricultural households; if not the same, then the mixed households would have to be included in the group of agricultural households, as is the case now;
- the definition of farmer is not clear either; the Law says these are „persons deemed by law to be working in agriculture“, which does not explain a lot, more so since this «law» which used to resolve the issue no longer exists; the current Law on Agriculture and Rural Development defines a farmer and a member of the agricultural family household, inter alia, as a person inscribed in the Register of agricultural households, which by all means does not fit the needs of the pension law (there are farmers who are not inscribed in the register, and are working in the field of agriculture and are insured);
- in line with the above mentioned, it is unclear how to treat someone at the agricultural household who, in addition to working in

agriculture, also works in another area, for example tourism or food processing; and which insurance category should such persons fall into: Farmers or self-employed or both? Do they choose or does the Law prescribe the order etc. These are all unresolved issues which need to be specified.

54. In addition, there is a serious issue regarding the inclusion of the farmers' pension insurance. The issue is as follows:

Firstly, there is a question on whether all those working in agriculture should be kept in farmers' insurance or if some of them should be transferred to the insurance of the self-employed. Namely, in the Serbian agricultural production there has for a long time been a small village property, originating in the ancient times and further reduced in time of socialist agrarian reform. This is the type of village and the type of farmer for whom this farmers' pension insurance was intended.

However, recently there has been a change in the structure towards stratification, so the villages are seeing the appearance of people that cannot be described as traditional farmers who were intended to be covered by farmers' insurance, but who are entrepreneurs in agriculture: they have sizeable plots of land (often through lease), processing capacities, they hire labor, work with large buyers and such. Such individuals are unlikely to find interest in participation in the insurance where one pays against minimum base to secure minimum pension. In addition, prescribing for these entrepreneurs to pay against minimum base brings pure financial loss for pension insurance, since their obligation for contributions, if calculated according to the real economic strength, i.e. earnings, would have to be manifold higher.

Therefore, the possibility should be examined for these individuals to be transferred to self-employed insurance because it suits them more with respect to the character of the work they perform, as well as regarding the financial side of insurance. The base on which to pay the contribution could be either according to the real income (earnings) or expressed as flat rate, but significantly higher than that of the insurance of farmers.

55. Secondly, the inclusion of agricultural workers (hired/wage laborers) into pension insurance is minimal. The reason is in the fact that

this insurance is as a norm tied to the households and the household property, so there are no serious attempts to include seasonal laborers or those permanently working on someone else's property and having no property of their own. This is a serious problem for the poorest population group in villages, the group which is most in need for pension insurance in old age.

Without a doubt the inclusion of agricultural hired labor into pension insurance is absolutely necessary, but this is equally clearly very difficult to do. The reason is clear: these laborers are not registered anywhere and they receive their wages in cash, so that tax authorities have no records of it. This is hard to expect in a country in which their bosses (employers) are hard or impossible to include in pension insurance. However, in case the state of Serbia decides in favor of radical reform of the pension insurance for farmers, what should be kept in mind is that this segment of workers in agriculture exists.

56. Finally, the issue remains regarding the number of members of the agricultural household who need to be insured. In the current law this is only one member, as it is stated in the above mentioned paragraph 3. However, in the draft of the new pension law prepared by the workgroup of the Deputy Prime Minister Krkobabic, it is foreseen that all members of the household be mandatorily insured.

This solution would have some strengths:

- It would put all active workers in agriculture in an equal position; in other words, it would not create economic dependence in old age of one farmer on the next (one spouse on the other),
- It would resolve the currently existing inter-generational problem: The heir of the agricultural property mandatorily becomes insured only after the head of the agricultural household gets retired, meaning not before roughly the age of 40; the heir thus has very short pensionable service at the point of retirement, so that the state needs to subsidize his pension.

However, there are serious weaknesses to this idea:

- It is unfeasible for as long as the Register records remain messy and noncurrent and while there is no will on the part of the state to strictly enforce the law on pension insurance and

- It would bring significant increase of the financial obligations of the agricultural households, which would be tough on the poorer households, and which would inevitably lead to additional reduction of the participation of farmers in the pension insurance.

I believe that there is no doubt that this step makes no sense until mandatory farmers pension insurance is reformed and put on firm foundation. Only then could there be a consideration on whether to introduce mandatory nature of insurance for all members of household or not. If this provision is enacted prematurely, it would not have any positive effect, but can only further discourage the farmers from participating in insurance.

Contribution base

57. As mentioned, all insured farmers pay equal pension contribution against the same, minimum base. This solution is chosen by necessity after the cancellation of taxation of agriculture income in 2004, whereby the only natural base for contribution was lost – that being the tax base. The existing solution on equal base negates by all means the principle of paying contributions based on the income of the insured, and the pensions of farmers are inevitably equal for all.

The equal base and equal pension do not suit many farmers of course. The ones who are better off find the pension system unattractive as it brings small pension. The poorer ones feel the prescribed contribution is too high for them to pay, therefore they are left without a pension and they are the ones who need it most.

Since it is difficult to expect from state bodies (Tax Administration and others) to undertake the enormous task of determining the income of hundreds of thousands of households for the purpose of improved setting of the amount of pension contributions, the only hope for the improvement of the base, i.e. for its harmonization with the income of an individual or household is in reintroduction of agriculture income taxation.

58. Reintroduction of agriculture income taxation is by all means fair, since the current state – in which this industry is completely exempt from taxation – is extremely unfair. The existing solution is primarily a

result of political pre-election calculations, and not based on any objective reasons.

Without going into any details regarding the area of taxation of agriculture income¹⁴, let us state that there are several options of taxation, differing in tax technique and demands on farmers and tax administration. Let us mention a few of the methods:

1. through the assessment of the real income of the agriculture household, based on the full book-keeping;
2. through the simplified determination of income, based on simplified book-keeping;
3. based on the value of land, i.e. based on the potential quality of the land;
4. based on cadastral income, which has been used for decades in Serbia;
5. based on the assessment of tax administration.

These methods can be used simultaneously, for specific categories of farmers. Thus the first method suits the largest farmers, as they need to have good book-keeping due to their needs (financial planning), and the last one suits the poorest ones (presumably they do not keep books, very often they cannot fill in more complex tax returns).

The expansion of the possibility of taxation compared to the earlier period is aided by the gradual wider inclusion of farmers into the cashless payment system, especially the VAT system through the VAT fee, which simplifies inclusion in the VAT system.

Penalty Provisions

59. The overview of the penalty provisions in the effective *Law on Contributions for Social Insurance* shows that it does not foresee penalizing of farmers who do not pay contributions. It explicitly lists fines payable by the entrepreneurs, independent artists and their associations, church officials and others, but the appropriate article on fines for the farmers not paying the contributions is missing. Thus the state has shown that it is avoiding penalizing the farmers, i.e. it is giving them preferential treatment compared to other obligors, with all the enumerated

¹⁴ Please refer to B. Mijatovic - Agriculture income tax, in *Tax System Reform* (2), CLDS, 2004

consequences. This makes the job of Tax Administration easier since it does not need to break the law when not going after those not paying the contributions within the group of farmers insured.

Similarly, the new *Law on Central Register of Mandatory Social Insurance* foresees the fines for failure to register and for incorrect registration, for the employers (legal entities and physical persons), but not for farmers.

However, the law exists which forces the state i.e. Tax Administration to go after and fine the farmers violating the law and not paying the pension contribution: this is the *Law on Tax procedure and Tax Administration*, which is the basic law in the field of public revenues. It prescribes general procedure for those not paying the public revenues, thus pension contributions as well. It provides for forced collection of debts, which means that there is legal basis, but also a legal obligation for Tax Administration to forcibly collect debts on farmers' social insurance.

The fact that Tax Administration does not force collect the debts from the farmers obviously has political background. Because it is not an independent state agency so that it has its own attitude towards an issue of law enforcement, but an institution under the Ministry of Finance and receives orders from it (and hints).

60. If the state wants to fix the situation in the pension insurance of farmers, it is inevitable, as we have already mentioned, to change the attitude towards non-payment of pension contributions and start forced and punitive measures that are otherwise part of the legal system of Serbia in the fiscal area and applied to other defaulters not only related to taxes but also contributions for social (and pension) insurance.

To do this, not much is needed, at least in formal terms:

- inclusion in the *Law on Social Insurance Contributions* of a clear provision which provides for penalties for non-payment or late payment of contributions by the farmers and
- application of the provision and stipulations of the *Law on Tax Procedure and Tax Administration* on penalties and enforced collection.

The former would supplement the legal framework necessary to fight against non-payment, and the latter would exercise the legal options

and bring about real action, not only to collect the previous debts, but even more – to convince farmers that non-payment of contributions does not pay.

OPTION 2: CONTINUATION OF THE CURRENT SITUATION

61. It is highly likely that the Government, although it wants to improve the farmers pension insurance system and although there were some efforts in that direction, may fail to improve the situation with this insurance significantly, either due to the failure in exercising the huge administrative work on the establishing a good pension system, or due to the lack of political will to use enforcement and make the farmers pay the contributions.

In such situation, it is probably the simplest solution to continue with the current system and practice, speaking from the political perspective, and regardless of the numerous adverse effects. Political attractiveness of such orientation comes from the fact that there is no class of the society interested in changes in any direction– in the direction of radical reforms in order to create the real system of the mandatory insurance or in the direction of abolishing the current system and practice. The farmers, as a class of society mostly interested in this issue, are not very interested in participation in pension insurance, believing, at least while they are young, that their property is their best pension. Only the tiny minority among them wants the pension insurance, but they are completely satisfied with its voluntary character. There is no other class of the society which sees its interest in strengthening the pension insurance system of the farmers; on the contrary, the interest of the tax payers is not to pay more money in the budget only to be paid to the farmers pensioners. And when there is no wider support for some policy, expressed via potential voting on the next elections, it is likely that there will be no such policy at all.

62. Prevailing of the option to carry on with the current system and practice would result in adverse effects in many fields:

- in the field of undermining the concept of the mandatory pension insurance which should ensure the adequate source of income for farmers in their old age,

- in the field of spreading the poverty among the aged people who used to be farmers, since the other programs of social protection do not cover the farmers and their families adequately,
- in the field of state finances, since the budget of the Republic will continue to cover the expenses of this PAYG system which ceased to be the PAYG system a long time ago.

Further situation with the pension insurance in this scenario would depend on several factors:

- demographic and biological processes among the farmers, which would certainly lead to relatively quick reduction among the farmer population; that speed would be the result of calming down of the previously intensive migrations from the villages to towns on one hand, and fast aging of the village population, on the other,
- economic processes, which still result in reallocation of the labor force from the primary into the secondary, and especially into the tertiary sector,
- the restoration of trust of farmers in pension insurance system, on the basis of its smooth functioning (regular payments of pensions) in the following period and
- real conditioning of the farmers subsidies with the regular payments of contributions for pension insurance, with the efficient prevention of avoidance of this duty.

Quantification of these factors is not possible, but the first two are likely to prevail in the long-term over the others and the number of pensioners and the insured will continue to decrease.

63. The continuation of the current tendencies will make one, seemingly technical, problem even worse: interrupted line of the years of service of the farmers who are entitled to pension. As we have already seen, many of them have very small number of years of service at retirement, so the question will be what should be done with the years for which no contributions were paid. The problem here is not the calculation of pensions, or the threat that the calculated pension would be lower due to the unpaid contributions (since the farmers will get the

minimum pension anyway), but the problem is that in this way the formal duty of the continuing pension insurance payment is undermined. In the previous period that problem was solved using the ad hoc measures, via the so called stand-by years of service and via payment of the debt through pensions, but those solutions are not enough in the long-term. And there is no good solution:

- if the irregular payments of contributions are tolerated, it would mean the breach of legal provisions which provide for the continuous insurance,
- if the possibility of the interrupted line of the years of service is formalized (i.e. allowed by law) it would mean that the mandatory insurance system has turned into a voluntary one.

OPTION 3: ABOLISHING OF THE INSURANCE OF FARMERS

64. One of the options, as we have already mentioned, is the liquidation of the mandatory insurance of farmers. This option is, in a way, a default one – it is possible to be chosen if the other options prove to be unacceptable or unviable. Thus, the assessment may be:

- It is not possible to recover the pension insurance of farmers as described in the option 1 since
 1. it goes beyond the administrative capacities of the government and the state,
 2. farmers are not interested to be insured and they are strongly opposing the insurance, avoiding participation, although the system contains favorable solutions for them,
 3. the government, due to political reasons, does not want to enforce the farmers to pay contributions; this is a standard weakness of the political elite towards the farmers, expressed also in abolishing the tax on income from agriculture and establishing the wide program of subsidies in agriculture,
- The maintenance of the existing situation (option2) is unacceptable because
 1. the mandatory insurance has turned into voluntary insurance, which should not be organized by the state,

2. it is too costly for the state budget since the revenues from contributions are constantly decreasing and the budget has to cover higher and higher amounts, and the long-term perspectives are not favorable,
3. it demands significant administrative efforts, and there are no tangible results.

65. Abolishing the existing type of insurance wouldn't have to basically change the possibilities for pension insurance of farmers. The existing insurance has actually been voluntary in its nature, and those farmers interested in pension insurance could opt for a voluntary private insurance. Actually, there are different situations:

- New generations of farmers would freely decide whether they need the pension insurance and in which fund they will pay contributions, depending on the offered terms,
- The existing insured of the state owned pension fund could go to private funds or give up the insurance altogether; the state would provide them with the bonds they could use when they retire as a compensation for the paid contributions; such compensation would be fair and would have to exist,
- The existing pensioners would keep their status and would continue to receive pensions, completely financed from the budget,
- The old farmers without pension would still be entitled to social aid.

If looked carefully, it is clear that options 2 and 3 are not that different: in both options the farmers get voluntary pension insurance, and the existing pensioners receive the pensions from the budget. The only key difference is the following: in option 2, the new pensioners will still receive significant subsidies from the tax payers, while in the private insurance (option 3) they will not exist since the pensions are mostly calculated on the basis of the contributions, and potentially on the basis of the investment returns as well.

67. From the perspective of the public finances, the effects of this change may be observed in the short-term and long-term:

- In the short-term, the expense of financing the existing pensions would increase in the amount equal to the contributions which

used to be paid by the insured which would no longer exist if the state insurance were abolished (2.36 billion dinars in 2009),

- In the long-term, the budget surplus is guaranteed since the expense of financing the existing pensions would gradually decrease due to decrease in the number of pensioners for biological reasons, while there would be no inflow of the new pensioners; on the other hand, there would be a long-term expense for the compensation bonds but that expense would be expanded in the long period of time and would not be too excessive since the contributions were not too high; thus the conclusion is that in the long-term the budget would have a positive balance.

67. It is possible, after the mandatory pension insurance system for farmers has been abolished, to apply an alternative, completely new concept: to create a system of social pensions for farmers. The farmers would, when they reach certain age, be entitled to social pension which would have nothing to do with the history of an individual in pension insurance, and would not be based on the paid contributions, but would be a right of an aged person to get a state support regardless of the fact if the person was insured or not.

The social pensions system exists in some highly developed countries (Australia, Denmark, etc.). Its advantage is in providing an income for the whole aged population, regardless of their working history, and thus it eradicates the poverty of the aged people, but its disadvantage is its high price, i.e. it demands significant financial funds.

There are ways to partially decrease the expenses via targeting the poorer groups of population. In other words, the social pension would not be given to all aged people, i.e. it would not be a general right, but only those who are proved to be unable to afford a modest living. This reduced group of beneficiaries would certainly make the scheme cheaper, but would make its administration more complicated: While with the general social pension it is enough for somebody to submit an ID and obtain an approval for a social pension, the procedures for identification of entitlement to targeted social pension are very complex and susceptible to manipulations.

In Serbia, the approval of social pensions for farmers would be connected with the political opposition of other groups of population, who

would recognize in such a scheme an unjustified favoring of farmers on the account of others. And they would be right. That is why the idea of social pensions for farmers is not a realistic one.

The establishment of the social pension system for all the aged people, in order to solve the problem of discrimination of some groups, is too expensive and it is not realistic to expect Serbia to apply it in the near future.

68. There is another possibility for additional support to the aged, poor people, not included in the voluntary pension insurance, upon the abolishment of mandatory pension insurance: it is social aid. Namely, the social aid exists as a last option for support from the state to the poor people who do not have enough for living.

Although it is allegedly general in its character, i.e. intended for all the poor citizens, the social aid is so regulated that it practically prevents the farmers to be eligible to apply for it. Namely, the formal conditions are the following:

- The candidate should not possess land above 0.5 ha as well as other real estate, except for the house the candidate lives in,
- Those who possess the property above the regulated threshold may be entitled to financial benefit only if they allow the center for social work to sell or lease the surplus of property, and allow the center to pay financial compensation out of those funds, or if the owner of the property transfers the property to the Republic without any compensation.

Those conditions seem as if they are made to repel the farmers to think about the social aid. The request that a farmer should give up his property (land and real estate) in order to be entitled to a modest social aid is not acceptable for farmers.

This solution is more suitable for the time when the employees in the state and socially owned companies were the only ones entitled to various types of benefits, while the other groups were excluded. It is time to change that practice. That is why the mentioned conditions for social aid for farmers should be relaxed, especially for the aged farmers without pension. Even more so if we consider the fact the farmers are not able to lease their property or sell it completely or partially, since

in Serbia, especially in central and mountainous areas the demand is weak and the prices are very low. Often, the properties cannot be sold at all.

Of course, this strengthening of the social aid is possible under the option 2, as a support for those who do not opt for voluntary insurance. Actually, as it has already been mentioned, the options 2 and 3 are very similar, and in both the farmers have the option to get involved in the voluntary pension scheme or not. Thus, it would be useful to reform the social aid program in the favor of farmers regardless of the option chosen.